November 26, 2020

Uniparts India Limited: Ratings Reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	55.0	15.0	[ICRA]A+(Stable); Reaffirmed
Fund-based – Working Capital Facilities	172.5	165.0	[ICRA]A+ (Stable)/[ICRA]A1; Reaffirmed
Unallocated Limits	1.0	10.0	[ICRA]A+(Stable); Reaffirmed
Total Bank Facilities	**228.5**	**190.0**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation takes into account the continued strong operational performance of Uniparts India Limited (UIL), aided by its global service delivery model, strong engineering and product development capabilities as well as established relationships and share of business for supplying three-point link assemblies (3PL) and precision machined parts (PMP) to leading agriculture machinery and construction Original Equipment Manufacturers (OEMs).

The prospects of UIL remain linked to global demand conditions, especially in the North American market, which constituted ~59% of the company's revenues in FY2020. Even as its Indian manufacturing facilities were shut down following the lockdown announced by the Government of India, the facilities of the company located in USA (Uniparts Olsen Inc. plant and warehouses at Elridge, Iowa, and Augusta, Georgia) continued to operate and were not subject to any shutdowns. While the demand from the construction equipment segment (for precision machined parts) has been adversely impacted by the ongoing pandemic, the company's major customers have continued to operate their plants, and were classified under the "essential critical infrastructure industry".

Accordingly, the impact of lockdowns on the entity's scale of operations has remained low. The company recorded revenues of ~Rs. 390 crore in H1 FY2021, a ~18% decline over the corresponding period previous year. After muted revenues in Q1 FY2021, the supplies to OEMs have ramped up in a healthy manner over the past few months, with the company's revenues over the past two months (September and October) exceeding the previous year levels. The company has been able to report healthy operating margins of ~15.6% in H1 FY2021 vis-à-vis 14.8% in FY2020. In addition to various cost efficiency measures, UIL received loan/assistance under the payroll protection programme of the US Government to cover cost of payroll, utilities and interest (upto a maximum of USD 100,000/person) for its subsidiaries Uniparts Olsen Inc and Uniparts USA Limited for the period April-September 2020.

The rating reaffirmation also favourably factors in the company's healthy financial risk profile, characterised by a conservative capital structure (TD/TNW of 0.6 time in FY2020) and strong debt coverage indicators (TD/OPBDIT and Interest Coverage of 2.2 times and 7.7 times, respectively, in FY2020). With a bulk of the company's capex plans already completed and expected to remain limited to maintenance and upgradation of existing facilities over the medium term, its stable cash accruals are expected to help it sustain a comfortable credit profile. ICRA notes that UIL's attempts to provide an exit to its private equity (PE) investors[1] through an Initial Public Offering (IPO) have not been successful till date. While no exit route has been finalised for the PE investor as yet, ICRA would continue to monitor the events, with any significant cash outflow from the company remaining a key rating monitorable.

UIL's consumer industries (both its key business sectors of agri-machinery and construction equipment) remain inherently cyclical in nature. Additionally, even as the company caters to multiple customers, a significant amount of its revenue emanates from a single agriculture and construction equipment manufacturer (~39% in FY2020), resulting in customer concentration risk. This risk is, however, mitigated to an extent by its established relationship with the customer and the multiple touch points with the customer across the globe. Additionally, UIL's efforts to diversify its customer mix through new additions is likely to help reduce the concentration, going forward. While UIL's global delivery model aids its revenue growth and profitability prospects, it also results in higher blockage of funds in working capital requirements (on account of higher inventory holding) and has impacted the company's return indicators (ROCE of 11.8% in FY2020). The company's ROCE is expected to remain at similar levels over the short-term, with a weakness in demand in global markets likely to constrain any significant improvement in the same.

The Stable outlook on the long-term rating reflects ICRA's expectation that UIL will continue to benefit from its established relationship with leading OEMs in agriculture and construction equipment industries, helping it record moderate revenue and earnings growth over the medium term. The same is likely to help the company maintain a healthy financial risk profile.

Key rating drivers and their description

Credit strengths

Established relationships and healthy share of business with leading global agriculture and construction equipment manufacturers – UIL has a healthy presence in the agriculture and construction equipment sectors, being an established component manufacturer for leading global OEMs of its two product platforms—3PL for agricultural machinery and PMPs for agricultural and construction equipment. The company has maintained a strong share of business for the above products with leading global OEMs over the years, benefitting from its strong engineering and development capabilities.

Diversified geographic presence through global footprint across key markets – UIL follows a global delivery service model with facilities and warehouses across geographies. This helps it provide delivery options to its customers, wherein they can either opt for premium priced local delivery (for products manufactured in a nearby

[1] *Ashoka Investment Holdings Limited (15.9%) and Ambadevi Mauritius Holding Limited (4.8%) collectively hold ~20.7% stake in the company (invested in 2007) as on date*

plant or stored in a nearby warehouse) and benefit from lower lead time, or for competitively priced offshore delivery (from a relatively low-cost manufacturing location such as India) that entails a higher lead time. In addition to benefits inherent to a global delivery service model, having customers across geographies also limits UIL's exposure to downturns in demand in a particular geography.

Strong financial risk profile characterised by low gearing and healthy coverage indicators – UIL's financial risk profile remains healthy, characterised by conservative capital structure and strong debt coverage indicators. Most of the debt on the company's books are working capital borrowings, with its business being characterised by high working capital intensity. The capital structure remains conservative with the company having a gearing of 0.6 time as of March 31, 2020. In spite of high working capital intensity, the debt coverage indicators remain at healthy levels, with the company having an interest coverage of 7.7 times and Total Debt/OBDITA of 2.2 times in FY2020.

Credit challenges

High customer concentration risk with high dependence on an agricultural and construction equipment major – UIL caters to a large number of customers; however, a significant amount of revenue share comes from a single agriculture and construction equipment manufacturer (~39% in FY2020; although this has been declining gradually). While the high customer concentration risk exposes the company to vulnerability in demand from the OEM, the high customer concentration risk is mitigated to an extent by its established relationship with the customer and the multiple touch points with the customer across the globe. Additionally, UIL's efforts to diversify its customer mix helped reduce its single customer dependence to an extent; a ramp up in supplies for its other businesses is likely to help reduce the concentration risk, going forward.

Exposed to vulnerability in demand as end-user industries are inherently cyclical in nature – The company derives its revenues from agriculture and construction equipment industries, which are largely dependent on global/ macro-economic growth. A bulk of UIL's revenues emanate from the exports markets, with domestic supplies constituting only ~13-14% of its revenues (primarily export requirements of domestic tractor OEMs). Accordingly, UIL's prospects remain linked to global demand conditions, especially in the North American market, which constituted ~59% of the company's revenues in FY2020.

Over the years, the farm equipment industry in North America has faced demand cyclicality, which have impacted UIL's growth prospects. The recent disruptions amid the pandemic outbreak have weighed in on demand in the current fiscal. While the long-term fundamentals of the global agriculture and construction equipment industries continue to remain favourable, a prolonged slowdown in demand in industries catered across global markets could impact the company's earnings.

Working capital intensive nature of operations mandated by global delivery model – UIL's working capital intensity remains high (levels of ~46% in FY2020), resulting in significant utilisation of funds for working capital requirements. The same is a consequence of its global delivery service model, wherein it has facilities and warehouses across various locations to serve its customers in a timely manner. The company's inventory days remain high. For warehouse sales of products manufactured in India, the inventory holding period is about 5-6 months, which includes transportation and warehousing time, till the products are picked up by customers. The management of the company has been focused on reducing inventory holding and consequent working capital requirements; led by their efforts in this regard, the company has been able to reduce inventory holding to an extent in H1 FY2021.

Liquidity position: Strong

UIL's liquidity position remains **adequate**, characterised by availability of adequate unutilised lines of credit (buffer of
~Rs. 70-80 crore in working capital limits). While lockdowns in response to the pandemic had impacted cash flows in Q1 FY2021, an improvement in demand in the industries catered over the past few months has led to improved cash flows, with the entity expected to have sufficient liquidity to meet its debt repayments in a timely manner (~Rs. 25 crore[2] in FY2021). The capex plans over the short-term are expected to remain limited, with discretionary capex being postponed; the company continues to have sufficient capacity to cater to customer demands over the near term.

Rating sensitivities

Positive triggers – A healthier than expected improvement in the company's scale of operations as well as return and debt coverage indicators, benefitting from an improvement in demand outlook for the global agricultural and construction equipment industries, would be favourably considered for a rating upgrade.

Negative triggers – The ratings may be revised downwards if a weakness in demand in the underlying end-user segments adversely impacts the company's working capital intensity, profitability and credit metrics. Specific credit metrics that could result in a downgrade include interest coverage lower than 7.0 times on a sustained basis. Any significant cash outflow from the company for providing an exit option to its PE investors would remain a concern and a key rating monitorable.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Uniparts India Limited. As on March 31, 2020, the company had four subsidiaries (and one step down subsidiary), which are enlisted in Annexure-2.

About the company

Incorporated in 1994[3], Uniparts India Limited (UIL) is a global manufacturer and supplier of engineering systems and solutions servicing global OEMs in the off-highway vehicle, agricultural machinery and construction equipment

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[2] *Includes ~Rs. 10.0 crore of prepayment*

[3] *Promoters commenced the business in 1984*

sectors. The company primarily manufactures three-point linkage assemblies for the agricultural machinery sector and precision machined parts for the agriculture and construction sectors. It also manufactures other products such as hydraulic cylinders (for agriculture and construction sectors) and power take-off devices (for the agriculture sector). The company, along with its wholly owned subsidiaries, has six manufacturing units across India (five units) and USA, equipped with manufacturing processes such as forging, machining, heat treatment and welding, among others. Additionally, the company has three warehouse facilities (two in USA and one in Germany) for its overseas customers.

Its PE investors (Ashoka Investment Holdings Limited with 15.9% and Ambadevi Mauritius Holding Limited with 4.8% stakes in it) collectively hold ~20.7% stake in the company as on date, with the rest largely held by the promoters.

Key financial indicators (Consolidated)

	FY2019	FY2020
Operating Income (Rs. crore)	1,060.6	930.4
PAT (Rs. crore)	70.0	62.8
OPBDIT/OI (%)	12.7%	14.8%
RoCE (%)	15.7%	11.8%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	0.9
Total Debt/OPBDIT (times)	2.6	2.2
Interest Coverage (times)	7.8	7.7
DSCR	3.8	3.3

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

			Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Nov-26-20	May-1-20	Date & Rating in FY2020 Jul-30-19	Date & Rating in FY2019 Apr-30-18	Date & Rating in FY2018 Jan-10-17
1	Fund-based - Working Capital Facilities	Long Term/ Short Term	165.0	-	**[ICRA]A+ (Stable)/ [ICRA] A1**	**[ICRA]A+ (Stable)/ [ICRA] A1**	**[ICRA]A+ (Stable)/ [ICRA] A1**	**[ICRA]A+ (Stable)/ [ICRA] A1**	**[ICRA]A+ (Stable)/ [ICRA] A1**
2	Term Loans	Long Term	15.0	14.3	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**
3	Unallocated Limits	Long Term	10.0	-	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based - Working Capital Facilities	-	-	-	165.0	[ICRA]A+ (Stable)/[ICRA]A1
NA	Term Loan – 1	Nov 2018	-	Oct 2023	10.0	[ICRA]A+ (Stable)
NA	Term Loan – 2	Nov 2017	-	Apr 2021	3.0	[ICRA]A+ (Stable)
NA	Term Loan – 3	Jan 2018	-	Apr 2021	0.6	[ICRA]A+ (Stable)
NA	Term Loan – 4	Feb 2018	-	Apr 2021	0.8	[ICRA]A+ (Stable)
NA	Term Loan – 5	Aug 2018	-	Apr 2021	0.6	[ICRA]A+ (Stable)
NA	Unallocated Limits	-	-	-	10.0	[ICRA]A+ (Stable)

Source: Uniparts India Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Gripwel Fasteners Private Limited	100%	Full Consolidation
Uniparts USA Limited	100%	Full Consolidation
Uniparts Olsen Inc. [4]	100%	Full Consolidation
Uniparts Europe B.V.	100%	Full Consolidation
Uniparts India GmbH	100%	Full Consolidation

[4] *Step down subsidiary*

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